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PROTECTION, EXPANSION, AND INTERNATIONAL COMPETITION

The era of free trade that opened with the Anglo-French treaty of 1860 awaits adequate interpretation. The low tariffs that were spread over Europe by the subsequent network of commercial treaties were hailed as an omen of regenerated, almost beatified, industry by the worshipers of free trade. The vigorous reasoning, which gave so much vitality to the intellectual movement that accompanied it, lent to the results of that analysis an appearance of finality essentially deceptive, and encouraged swelling sentiments of perfectibility that were decidedly premature. This reasoning was based on a presupposition of finality and the analysis was one of an assumed static condition. In the light of subsequent experience and in a world that has vastly increased in population, in wealth, in complexity, and in sensitiveness of organization, we are now enabled to study more deliberately the development of trade regulation and specifically of those attempts of governments to increase the well-being of the societies over the destinies of which they preside, by means of tariff laws and the corresponding and accompanying commercial treaties.

Tariff laws and commercial treaties are not expressions of benignant idealism. The real influences at work in a tariff campaign are very human; and yet it is probable that some general principles may be discovered through the mist of class and party strife. While Cobden and Bright were presenting the moral and stato-economic aspects of free trade, the English laborers were clamoring for cheap food and the English manufacturers for cheap labor. They won the day against aristocracy and rent-rolls.

In France, an autocrat in the first flush of his power, fresh from military victories due to luck rather than to genius, desirous of conciliating England for disturbance of European equilibrium, entered into engagements with that country for the reduction of tariff duties, on his own responsibility and against the general opposition of the industrial classes. Napoleon needed but to add the Mexican expedition to the Cobden treaty and his empire was doomed, Sedan or no Sedan.

In Germany, however, the veil of special interests that concealed the general principle of development at work, was still more opaque. The tariff policy of Prussia turned about precisely the same axis that centred the rest of her statecraft. "Freedom with science" was the motto of the fatherland. The reforms of Stein and Hardenberg had been the means of throwing off the yoke of the first Napoleon. The question of the middle of the century was how to throw off the yoke of Austria. In 1853 Prussia made a temporizing treaty with Austria, agreeing to common rates of duties against third countries and lower rates between the two parties to the treaty. It became a maxim of Prussian politics that Prussia could never free herself from the domination of Austria so long as she retained a high tariff. Every effort was therefore made to convert the country to free trade. The Austrian treaty was not to expire till 1865. Nevertheless, Bismarck, as ambassador to France, and later in the same year (1862), as Prussian minister of foreign affairs, entered into a treaty with France conceding the most favored nation clause. Thus Germany obtained from France the advantage of concessions made by that country to England. In 1865, the year when the Austrian treaty was to have expired, Austria made a treaty with England containing the most favored nation clause.

Austria had looked upon the tariff as the first move in the scheme of incorporating Prussia into the Austrian empire. The policy of using a tariff as a step preparatory to political union was clever, and has succeeded in some other cases. The disappointment of Austria, therefore, was greater in the case of the failure of its tariff policy than in the affair of Schleswig-Holstein; the battle of Koeniggratz followed.

The special incidents, therefore, that brought about free trade in the three principal European countries were entirely different, and yet the coincidence of the free-trade movement in the different nations of Christendom, to which the tariff acts of 1846 and 1857 in the United States belong, is pronounced. We look in vain for some general principle in the endless variety of particular political influences and class interests. The social point of view is different from the individual; in fact it begins to dawn upon us that if we are to understand the general tariff movement we must observe it over a considerable period. If we look upon tariff policy as inter-

national, we cannot establish its laws by the observation of a single phase.

But a new phase was not long delayed. The crisis of 1873 was followed by severe industrial depression sooner or later in the several manufacturing countries, and sick industry felt the need of alternative medicine. The return to protection in France and Germany was accompanied by domestic phenomena not so dissimilar as those which were manifested in the respective states before 1860. The phylloxera and war taxation in France, and the reaction from over-speculation in Germany, made those nations long for a change. They both enacted moderate tariff laws as the eighth decade was passing into the ninth, and curiously enough, soon after, in the same years, 1885 and 1887, they both put duties on wheat and raised them. It was the agricultural classes that especially needed protection. In Germany it was the agricultural classes that had been free traders, but they swung rapidly into the protectionist ranks in the middle of the eighth decade and were enabled then, as before and after, to dictate Germany's tariff policy. There were even indications of uneasiness in England. Agricultural distress was great.

In 1874 England had performed the last act in the evolution of free trade by abolishing the sugar duties completely. Soon afterwards, however, the agitation for protection was renewed, and first in the specific form of a demand for sugar duties. In 1880 a report was made by a Parliamentary commission on the sugar question. In Germany the change had been still more sudden. The protectionist law of 1879 was passed only a year or two after the last of the iron duties was to have disappeared, under a decreasing scale agreed to in 1873; and France was no sooner free from the yoke of Louis Napoleon than she sought to return to a policy which agreed at once with the national genius and with the exigencies of indebtedness created by the war and by the five-milliard indemnity.

We have seen that whatever may have been the adventitious circumstances of the free-trade movement, it accompanied the more or less contemporaneous consolidation and at least temporary political completion of four great nations, England, France, Germany, and the United States. Looking again away from the special phenomena of the return to protection, we observe that the new tariffs are cotemporaneous, in a rough way, with a move-

ment for expansion, which, slowly gathering strength after the crisis of 1882 (France), 1883 (England), 1884 (United States), appeared in full force as the world movement of expansion after the crisis of 1890–93.

And now England becomes the chief actor. The protectionist question was still agitated through the opposition to sugar bounties, and the agitation was continued through many international conferences until at last success was achieved in the Brussels conference of 1902. Protectionism in a bad form was thus checkmated by protectionism in a more approved form. The defeat of protection in this form, however, has caused its forces to be concentrated in England along another line, more closely connected with the policy of expansion. The proposition is now made by Mr. Chamberlain that the mother country seek to consolidate the empire by means of an imperial customs union. This movement is at least coeval with the new protectionism. In the height of the triumph of free trade and laissez-faire, Englishmen talked of the colonies as an incumbrance and expressed the hope that they would go off and take care of themselves—the sooner the better. But with the revival of protectionism, which, as we have just seen, was in England connected with the sugar bounties, came an earnest discussion about the loose connection of the colonies with the mother country. In 1884 the Imperial Federation League was founded. The discussion has since been as to whether the political object was to be attained directly or through an imperial tariff wall that should recement the empire, which was felt to be falling to pieces. A great colonial conference, including representatives of all the self-governing colonies as well as of all the important crown colonies, was held in London in 1887. It led, however, to no decisive result. The protectionist colonies could not agree to surrender any portion of their freedom in the matter of taxation. Nevertheless, the movement bore fruit, for it led to a lively agitation in the colonies and finally to the passage in 1897, by Canada, the most important of the self-governing colonies, of a tariff law giving the preference to English imports over those of other countries.

The English chambers of commerce hold a convention every four years, and in 1892, 1896, and 1900 the motion for an imperial customs union has passed in some form or other. Mr. Chamberlain is making no new departure so far as his own politics is concerned.

As early as 1895, just after the re-entrance of the Conservatives to power, Mr. Chamberlain, as the new Colonial Minister in the Conservative-Union Cabinet, sent a circular to the different colonies inquiring as to the effects of foreign competition upon English exports. The answer came that there was no general tendency to exclude them. The principal immediate result of the inquiry seems to have been the establishment of a museum in London containing a collection of samples of foreign goods that enter into competition with English goods in the colonial trade. About the same time, the Commercial Museum of Philadelphia was founded, which, within the scope of its purpose as semi-official exploiter of foreign markets, includes a similar exhibition. In fact the movement for commercial museums and commercial education has been tremendously stimulated by the international competition of recent years and by the international segregation indicated by rising tariffs, since such museums, through their display of domestic products, are intended to intensify the art and individuality of the national production. In 1896 Mr. Chamberlain broached the idea of the imperial zollverein, but met with so much opposition that he was obliged to represent his position as merely tentative and to drop the matter for the time being. Now at last it would look as though he had burned his bridges behind him.

More interesting, however, than English expansion is the idea of the "United States of Europe." The reaction from expansion is counter-expansion; the reaction from the United States of America is the "United States of Europe." The idea of uniting Europe against American grain export is as old as the export itself.

"America had formerly by its Morrill tariff aided the efforts of Napoleon to create a network of treaties in central Europe."¹ In 1878 the economist Molinari suggested to Bismarck a European customs union. The stimulus for European international expansion went out from American agricultural competition. Books were written and quite naturally agricultural congresses were held, those held in Austria being of especial importance; in the interests of a European customs union. The commercial treaties concluded in 1892 by Germany, were looked upon as a means towards the end of commercial union. But two great countries held aloof: England was opposed to protection and did not share in the commercial

¹ Lotz, "Die Ideen der deutschen Handelspolitik," p. 193.

jealousies of the grain-growing states; and France, although one of the greatest wheat growers in the world, was pursuing a policy of economic isolation, for reasons apparently as much political as economic. Moreover, important treaties stood in the way—the treaty of 1828, between Prussia and the United States, and the treaty of peace made at Frankfort in 1871 between Germany and France.

The Frankfort treaty secured to France the lowest rates granted by Germany to third states, and of course the middle European states (*i. e.*, Austria-Hungary) are third states. The inconvenience of such an arrangement to a Germany seeking further expansion is obvious, and in making their treaty of 1891 with Austria, the Germans expressly stipulated that if they should make a formal customs union with "third" countries, they should not be obliged to concede to Austria the duties of the new zollverein. Of course this stipulation was meant rather as a model for future treaties than for application to Austria herself, since she is now the country most likely to enter a customs union with Germany. However, in 1895, upon the renewal of the Triple Alliance, the idea of developing it into a customs union was abandoned in official circles. Nevertheless, parliamentary debates and political tracts have constantly brought the matter forward: in the Reichstag in 1891, 1895, 1897, 1898, 1899, and, of course, in the debates on the new tariff in 1902; in international agricultural congresses at Budapest in 1896, and at Vienna in 1898, where the delegate of the German agricultural union declared:

"Our highly civilized states should unite and take common measures against the injuries caused by over-sea competition."²

And in the manufacturers union, at their meeting in Berlin in 1900. In 1897 Count Goluchowski declared before the Hungarian representatives that the

"European states must march shoulder to shoulder, and defend themselves against the common peril with every weapon in their political armories."³

On the other hand, in 1899, Count Kanitz declared in the Reichstag that a European customs union was useless, and in 1900

² Ernst Francke, "*Zollpolitische Einigungsbestrebungen in Mitteleuropa*," p. 221.

³ *Id.*, p. 224.

the Social Democrats in convention at Mayence passed a resolution in favor of commercial treaties between European states, but supported the continued use of the most favored nation clause, and opposed a tariff war with the United States. The Socialists are therefore again on record as opposers of the manifest course of events, which clearly unites protection with expansion.

The protective system that came into being about the year 1880 was intensified by the introduction of the maximum and minimum system by France in 1892. This system had been clearly foreshadowed in the French debates of 1881 and again in the reciprocity clause of the McKinley tariff. The French system spread to Spain, Russia, Brazil, Greece, and Norway, while the Dingley tariff with its reciprocity clauses is an example of practically the same policy. And Germany has at last fallen into line with the comparatively high protective tariff of 1902. That "expansion" has been the keynote of international politics for two decades at least needs only mention to carry conviction. The overflow of Germany into Africa and South America, of France into Africa and Madagascar; the dispute as to whether Dutch-British Africa should be united as an independent state or as part of a more "expanded" British empire; the onward march of Russia in Asia; the impending dismemberment of China and attribution of its parts to European powers; the acquisition of the Hawaiian Islands, Porto Rico, and the Philippine Islands by the United States, and her protectorate over Cuba and the Isthmus of Panama; the personal union of a vast area of central Africa with the kingdom of Belgium; the federation of the Australian colonies, are but examples of the general tendency.

There appears, therefore, to be a general coincidence between the world movement for expansion and for protection on the one hand, and, on the other, for political relaxation or at least the policy of *statu quo* and for free trade. If this is so, we may infer that the tariff is rather a political than an economic policy, or that it is an economic policy subordinate to a political purpose, or that it is partly a reaction from economic and partly from political conditions.

It is next in order to inquire whether there is any ascertainable connection between increase of wealth and success in international competition on the one hand, and the existence of tariffs, on the

other. Of course this is an old inquiry, and the general conclusion has been that it is a quest unattainable by the inductive road. The arguments usually made by politicians will not stand careful examination and are often absurd. Among students the usual idea has been that we are not yet ripe for conclusions other than those of the *a priori* order. Nevertheless, some of the general facts of international competition and of national production are interesting, suggestive, and worthy of mention.

The question whether tariffs have any effect at all on the course of trade, first claims our attention. It would seem that we have an opportunity here for economic experiment, since England has remained a free-trade country while other nations were putting up their tariffs. Now it is true that there has been a comparative and in some cases a positive decline of English exports to the Continent since the opening of the protectionist era, and that this decrease of exports has been accompanied by an increase in imports from the same group of countries into England. At the same time, England's exports to exotic countries have increased. So far as appears, therefore, the Continental tariffs have excluded English imports and caused England to seek other markets. But there are other facts that oppose or modify this conclusion. Exotic investment has not been confined to England. The Continent has been a liberal investor in the southern hemisphere as well as in the United States, China and the Orient. We have only to remember that Australia draws most of her imports from the Continent and not from England, that Germany makes large investments in American railroads and in African mines, and that France exports heavily to South America.

Therefore, if the Continental tariffs have changed the course of England's trade, it must be rather because they have fostered home production than because they have in the long run directly excluded English imports. On this point again, it is difficult to reach definite conclusions. No clear difference can be drawn in respect to the stimulus to production and the resulting increase in wealth and commerce, between periods of high and those of low tariff.

The production of iron is recognized as a most significant index of industrial prosperity, and an inspection of the accompanying table will be so instructive as to call for little commentary.

PRODUCTION OF PIG IRON—TONS.

[From Mulhall, "Dictionary of Statistics," pp. 332, 757.]

Date.	Great Britain.	France.	Germany.	United States.	Various.	Total.
1840	1,390,000	350,000	170,000	290,000	480,000	2,680,000
1850	2,250,000	570,000	402,000	560,000	640,000	4,422,000
1860	3,830,000	900,000	530,000	820,000	1,100,000	7,180,000
1870	5,960,000	1,180,000	1,390,000	1,670,000	1,710,000	11,910,000
1880	7,750,000	1,730,000	2,730,000	3,840,000	2,090,000	18,140,000
1885	7,420,000	1,630,000	3,690,000	4,050,000	2,310,000	19,100,000
1889	8,250,000	1,720,000	4,530,000	7,600,000	3,060,000	25,160,000
1895	8,020,000	2,010,000	5,790,000	9,450,000	29,300,000
1899 ^b	7,928,647 ^b	2,714,000 ^a	8,150,000	15,878,354 ^b

Under approximate free trade, or at least a descending scale of duties, iron smelting made its most rapid progress in Germany from 1860 to 1880. It is true that the progress was more rapid before 1873, when the pig-iron duties were removed, than in any other period; but the absolute additions to the output were larger in the free-trade era, 1873-1879, than previously or than in any subsequent period, except the remarkable development since 1895. Under practically prohibitive tariffs, the increase in the United States has fluctuated with good and bad times, while the figures for England show decided effects of foreign competition. That these effects could have been avoided had England adopted a protective tariff is possible. England's great surplus of imports was long ago shown by Giffen⁷ and others to be caused by an income account due from foreign investment; a protective tariff would perhaps work out as a tax on foreign-created income for the sake of home-created income. In France we find a slight increase since the tariff of 1892. Perhaps the increase in France and the decrease in England may measure the difference between tariff and no tariff on iron. It is well to remark at this point that French exports increased from 1890 to 1901 by 11 per cent and English exports by 6 per cent; but that French imports have not increased at all in the same period, while English imports have increased 24 per cent, which puts the advantage in rate of progress on the side of England.

^a 1900^b 1901.^c This line is taken from the respective statistical abstracts.^d Essays in Finance, First Series VI, "The Excess of Imports."

A comparison of the recent economic progress of the United States with that of European countries will help us to form some conclusion as to the influence of their several tariff policies and of that which is common in all their tariffs.

In 1901 our foreign commerce was still only 2.2 billion dollars compared with a domestic commerce of 28 billion dollars; and the volume of goods exchanged between different parts of our country was twenty-four times our foreign commerce. Our total *trade*, domestic and foreign, was much more than the combined total trade of Great Britain and Germany.

Taking production rather than commerce as the test of prosperity, we find again that, according to impartial statistics and estimates, the American *manufactured product* is equal to that of Great Britain and Germany combined. The fact that a British depression and a severe crisis in Germany are contemporaneous with the greatest boom that the United States has ever enjoyed, renders this estimate extremely probable, though less exciting as a jingo argument.

Among domestic products, iron, from its universal employment, has always been taken as the best barometer of good and bad times. Our pig-iron product in 1899 was 50 per cent greater than Great Britain's and 70 per cent greater than Germany's. In the same year our *steel product* was nearly equal to Great Britain's and Germany's combined.

Of course our development has been remarkable, and yet, in many respects, it has not been so rapid as that of Germany. Since 1890 Germany has nearly doubled her production of pig iron and trebled her production of steel, while in the United States the production of iron increased but 50 per cent and of steel but two and a half times. There was little progress in England in the same items. In iron production there has been an exciting and close race between the three great nations, United States, England, and Germany, in recent years. In pig iron the United States passed England first in 1889 and again for good in 1894; while Germany surpassed England in steel first in 1894 and again for good in 1896. The United States passed England in steel first as early as 1886, and again for good in 1889. Germany has never reached England in pig iron. Thus we find the United States easily leader in the iron race, coming in on the home stretch in a canter, as it were, while

England and Germany are making a dead heat by themselves and well in the rear, England having the advantage in iron and Germany in steel.

Iron is the material of our tools, but our tools and land supply a much more interesting product, food. As iron is the typical tool material, so is wheat the principal food material. Speculation is rife as to the future of wheat production; and it is quite essential to include wheat in our general review, as we produce more wheat than any country in the world, or 23.4 per cent of the world's crop, while all Europe, with five times the population of the United States, produced in 1898 little over twice as much (53.8 per cent of the world's crop, 2,879,000,000 bushels).

Writing in 1896 Mulhall says that "one farming hand in the United States raises as much as two in the United Kingdom, three in Germany, five in Austria, or seven in Russia."⁸ We must remember, however, that the wheat acreage and product of the United States slightly declined between 1880 and 1895. It is true that since then there has been a large increase in area, from 34 to 44.5 million acres in 1899 and in production to 675 million bushels in 1898. The period of decline in the United States was outweighed by the great increase in the Argentina production; and curiously enough, since American production has increased again, that of Argentina has receded. But Canada has not been so accommodating to us in her wheat competition as Argentina. Canada's acreage has developed recently with great rapidity. In recent years, it is estimated, a couple of hundred thousand immigrants have found their way to the wheat farms of the Canadian Northwest. Many went from this country and became foreign competitors in wheat growing.

In the production of corn, however, the United States is not only ahead of each and every foreign country, but of them all put together. She possesses a national monopoly in corn, furnishing 76 per cent of the world's product (in 1900), compared with 23 per cent of the world's wheat crop. Her cotton monopoly is almost as great as that in corn, or 71 per cent of the world's crop. Three-fifths of the crop is exported, forming the most important of all of our exports, manufactured or crude, although breadstuffs do not fall far behind. We also raise more oats than any other country

⁸ "Dictionary of Statistics," p. 613.

(or 25 per cent of the world's crop). Our stock of cattle and hogs is greater than that of any other country in the world. On the other hand, our production of sugar, including beet sugar, has grown but little until recently.

Since 1850 our production of wheat, corn, and potatoes has increased faster than our population, while our production of sugar, always inconsiderable, has increased but half as fast. The Continental bounties to the exports of sugar, ruinous to Continental treasuries, are to cease. It remains to be seen whether our sugar industry is to profit by the change. We are the greatest producers of tobacco, flaxseed, lumber, coal, iron, and copper. Our forest industries are equal to our woolen, cotton, and leather combined. We produce one-third of the world's coal, and one-half of the world's copper. In the production of petroleum, Russia is ahead of the United States in quantity; but in value we are far ahead. We are the greatest producers of silver in the world, and we were the greatest producers of gold during the suspension of the Rand mines. (In the production of gold we were momentarily overtaken by South Africa in 1898.) Our fishing and canning industries are very important.

While therefore our agricultural interests are still by far the most important, our larger progress has been in manufactures, and the general progress of the country, which is greatly indebted to agriculture, is nevertheless taking its tone from manufactures; we hear more about non-agricultural industry than ever before. The iron industries have claimed the most attention, although none have escaped the recent reorganization and new impetus. From 1860 to 1900 the value of manufactures increased more than seven-fold. The industries which have shown greatest increase are iron and steel, cotton and clothing, boots and shoes, and food products.

While it is true that England has been unable to compete with American agriculture for her home supply of grain and provisions, she has been able to turn her land from the comparatively unprofitable industry of producing wheat to the more profitable industry of raising cattle. During the agricultural depression in England which began in 1875, we notice that the number of cattle increased considerably (20 per cent between 1870 and 1887). Since 1890 the stock of cattle in the United States has remained stationary.

Again, the United States has sold considerable quantities of

its iron manufactures to England in the last few years. (From \$4.6 million worth in 1895 to \$25.1 million worth in 1901.) Of all kinds of manufactures, in totals, our exports to the United Kingdom increased two and a half times from 1892 to 1902. This does not include exports of agricultural or food products. The inference, however, that our export movement is accompanied by a decline in British industry is hardly warranted. The fact that England is able to buy more of us, notwithstanding that the exports in some cases appear to be similar to those produced in England, would seem to indicate a probable increase in England's purchasing power. While in certain lines England is unable to compete with us, yet in others she is holding her own and even gaining, as in cotton manufacture, shipbuilding, and ocean transportation. The claim that in the long run we are able to produce pig iron more cheaply than England, is questioned in well-informed quarters.⁹

We must remember again, that while the United States was undergoing the severe crisis of 1893-96, not experiencing any considerable revival until 1898, Europe was enjoying a boom which culminated in 1899-1900; so that just as we came to our zenith in 1900 or later, there was a new period of crisis abroad. It is unfair, therefore, to compare contemporaneous conditions—Europe in the throes of crisis and the United States on the crest of a boom. The New World receives its prosperity in large measure by transmission from the Old. While prices were so low in the United States, caused by the crisis of 1893, our exports were stimulated. The Old World bought freely of us then, and this stimulus in foreign trade was communicated to our whole industrial machinery. Europe has passed along to us the palm of prosperity and it ill becomes us to deride her, exhausted with the exertions that have been so beneficial to us.

The boom lasted in England from 1896 to 1900. In this period the price of iron rose by fourteen to seventeen shillings per ton and that of coal by two shillings. The profits of the iron industry in this period are estimated to have been two hundred and seventy-two million pounds greater than in the preceding five years, and the profits of the coal industry ninety-two millions greater. While the end of the boom was due, as M. Raffalovich

⁹ Jacob Schoenhof, "Iron and Steel in England and America," *Journal of Political Economy*, December, 1901.

suggests,¹⁰ to American iron exports, they were not a fundamental cause of hard times in Europe. At any rate, our exports of iron began to increase as early as 1895, and notably in 1896, to England as well as to other countries. The earlier exports may have stimulated rather than injured the English and German booms, by offering needed complementary articles; the later exports were perhaps more truly competitive. The high prices which we asked, however, caused a reaction; our purchases of English iron increased, and the depression in English and German trade has been of late much relieved by American buying. While the United States is the acknowledged leader in iron and steel, England easily retains the lead in cotton products, with her forty-five million cotton spindles, against thirty-two millions on the whole of the Continent, and seventeen millions in the United States.

At the present moment, indeed, the tables are turning again, and the conditions favorable to selling abroad are returning. In the United States, all over the country, money is tightening. Wall Street is in a state of collapse; and a general reduction of industrial activity is inevitable. The West, independent in its agricultural wealth, does not yet feel the shock; nor will it suffer seriously so long as crops are good. It is now the creditor section. In 1893, when it was a debtor section, the crisis rolled from the West to the East. Now the sweep of the financial storm is backwards from the Atlantic coast toward the Rockies.

Abroad the financial storm center has been in Germany. There was a great electrical boom in Germany from 1895 to 1900. In Prussia the income subject to tax increased from 5,578 million marks in 1894 to 7,257 millions in 1899, the tax on capital affected 63,917 million marks in 1895 and 69,906 millions in 1899. Iron production rose from 4.5 million tons in 1889 to 5.4 millions in 1895, and 8.5 in 1900; coal from 64 millions in 1891 to 72 millions in 1895, 89 in 1898, 94 in 1899, and 101 in 1900. In 1900 the bubble of electrical and other speculation in that country burst,¹¹ and since then the Germans have been scrutinizing critically and almost suspiciously their trade relations with the United States. Our exports to Germany increased from 92 million dollars in 1895 to

¹⁰ "Le Marché Financier" 1901-02, p. 15.

¹¹ Due to the fall in iron on the American market in the spring of 1900. Richard Calwer, "Handel und Wandel, Jahrgang 1900," p. 11.

187 millions in 1900—five years—while our imports increased only from 81 million dollars to 97 million dollars. Our exports of wheat increased from 608 thousand dollars in 1896 to 7.6 millions in 1899, falling to 6.5 millions in 1900. Now this unfavorable trade balance is a matter of great grief to our worthy Teuton friends. They are fond of twitting the British with being a nation of shopkeepers and the Americans with barbarous materialism, but they themselves are undoubtedly extremely sensitive on the question of the pocket-book; and certainly it would appear that they have discovered some ground for controversy in their tariff relations with the United States.

In 1892 they made a commercial treaty with Austria, in which the duty on wheat was placed at about 25 per cent (22.5 cents per bushel). By virtue of the reciprocity treaty of 1828 between Germany and the United States, under the most favored nation clause, the United States has since 1892 enjoyed the benefit of the rates contained in the Austro-German treaty. Since that year, however, the United States has gone on making tariffs at its own sweet will. When the rate of 1892 came in force, the McKinley tariff prevailed in the United States, and this country readily granted to Germany free importation of German sugar. Subsequent American tariffs have placed a high duty on foreign sugar and a still higher duty on such sugar as is said to be "bounty-fed," as was the case with German sugar. Notwithstanding that Germany has effected a sort of reprisal by discriminating rates against some American products on her state railways and by various edicts against imports of American meat products, the Germans believe that they still have the worst of the bargain and feel particularly sore about the growth of American exports; so that they have at length put up their tariff, especially upon American foods. With the cessation of the German bounty, the American discrimination should cease, and less excuse should exist for exacting high grain duties.

Some German statesmen and economists question whether their country ought to make an expensive dinner-pail by raising agricultural duties; while others are trying hard to prove that foreigners pay the tariff. They admit that a tariff war with the United States would be an expensive luxury, but they seem to be determined upon it. They are speculating as to whether Russia might not be a source from which they could get all of their food supplies and

thus make them independent of the United States and of Argentina; and very likely it is in this desire to find in Russia a granary that the reason for the inaction of Germany in the Eastern question lies; for the Germans have flatly refused to co-operate with England, Japan, and the United States, in hemming the progress of Russia in the Orient. Russia, by her wily diplomacy and through her favorable situation, has completely stayed the hand of both France and Germany in the Eastern question.

"In case it is necessary to enter into a tariff war with the United States," says Dr. Carl Ballod,¹² "there is no question but Russia can fully supply the place of the United States. Russian wheat is even better than the hard American winter wheat and hence better calculated to mix with the fancy varieties of English wheat cultivated in Germany, which are heavy but lack protein. For fattening cattle, Russian barley is superior to maize. The Russian barley export could easily be made to equal the American maize export to Germany. Germany might give up all imports of meat, raising it at home, and importing still more fodder from Russia. In the case of cotton, it would be harder to replace the American product. Germany imports three-quarters to four-fifths of her raw cotton from America and will probably continue to do so, notwithstanding that Russia, by a very high duty, has succeeded in greatly extending her cotton industry in Central Asia in the course of ten years. As to American copper, Germany could find no substitute for that." Beginning therefore with a confident declaration of the ability of Germany to dispense with American breadstuffs, Dr. Ballod concludes with the admission that she can find no substitute for American cotton and copper.

In the most recent period as in the earlier ones, we cannot positively assign increase of wealth or of permanent trade advantage to tariffs. Under a very high tariff the United States has made enormous progress; Russia has made considerable progress; and France very modest gains. On the other hand, under a moderate tariff, Germany has in many items surpassed the United States; while England, with no tariff, has done far better than France.

But the most instructive comparison is that of periods taken

¹² "Die Deutsch-Amerikanischen Handelsbeziehungen, Schriften des Vereins für Sozialpolitik." Cf. also, on this point, Richard Calwer, "Die Meistbegünstigung der Vereinigten Staaten von Nordamerika," Ch. IV, who admits that there is no substitute for American corn available to Germany.

as wholes. We find that so far as rate of economic progress is concerned, no broad distinction is to be drawn between eras of free trade and eras of protection. Progress is uniform through them all. Is the conclusion then that the tariff policy is merely *brutum fulmen*? By no means. We cannot know what would have happened without protection during a given period, and suppositions contrary to fact are not instructive. The different effects of tariffs on different countries at the same time lead one to infer that they are quite subjective phenomena, and that in different periods taken as wholes they may also be of quite different importance. Tariffs are a part of the general attitude of mind of the producing class. In some periods national industry calls for segregation, integration, and the development of national capitals, methods, processes, and organization; at other times it claims a free intercourse by virtue of which the attainments of the period of isolation—the above-mentioned processes, etc.—may be exchanged, compared, and enjoyed in common, with the result of a general leveling of economic differences, opportunities, values, and sources. This process of alternate isolation and congregation is so utterly natural and truly biological as to claim all the probability that may attach to reasoning by analogy. The tariff is then a condition of progress in so far as it is a part of the institutional or subjective environment of its period.

Naturally, again, the period of protection is also the period of expansion. It is when a nationality is not sure of itself, when it is seeking to include new territory and amalgamate a new population with the nation, that it would naturally embrace protectionism as a means of consolidation. We thus arrive at the double principle that *periods of expansion and protection coincide*, and on the other hand that *periods of non-expansion and free trade coincide*; and again, that *in both periods the world's wealth goes on increasing with little change*; while the competitive fortunes of nations vary as much in one period as the other.

The outlook then is for a continuance of the protectionist era so long as expansion continues to be an active political principle. The fact that the United States has always been in a condition of active expansion has kept it constantly in the protectionist line, so that it has reflected less than other nations the cosmopolitan alternations of free trade and protection.